

25 June 82

~~Top Secret~~

SPECIAL ANALYSIS

YUGOSLAVIA: Troubled Party Congress

[REDACTED]

The 12th Congress of the League of Communists opening tomorrow will highlight the country's deep divisions and its lack of strong leadership since Tito's death. Power is likely to remain in the hands of regional leaders, who want continued decentralization of authority and gradual democratization in the party. Discussions at the congress will center on economic problems, but the party probably will not go beyond reaffirming the general guidelines recently drafted by the government. [REDACTED]

The congress is responsible for charting national programs until the party's next general convention in 1986. Two-thirds of the 23-member presidium will be rotated in accordance with Tito's mandate that no one leader will dominate. [REDACTED]

The party leadership, which is plagued by internal differences and indecision, is losing the initiative in dealing with economic problems. For example, the major economic document for the congress will be a report from a special government commission. [REDACTED]

The report urges a long-term austerity program, which the congress probably will endorse. Debate is likely, however, over proposals to give market forces a more important role in the economy and to alter the inefficient decentralized system. Representatives of regional capitals, who have frustrated federal efforts at economic stabilization, will oppose any proposals that would limit their power. [REDACTED]

Party leaders risk losing the confidence of the people because of the economic situation. Inflation averaged a record 40 percent in 1981, and there is grumbling over periodic shortages of consumer goods, rising unemployment, and a 13-percent drop in real personal incomes in the past two years. The need for austerity to

--continued

~~Top Secret~~

~~Top Secret~~

combat balance-of-payments problems and high inflation has intensified regional rivalries over import and investment priorities. [REDACTED]

[REDACTED] Yugoslavia's foreign financing encountered new problems late last year [REDACTED]

[REDACTED] when several Yugoslav regional banks missed scheduled debt payments. [REDACTED]

[REDACTED] Belgrade has acted to correct the payments problems and, with large cuts in imports, the country could cover its financing needs this year by using its hard currency reserves and available credits. Yugoslavia, however, will need substantial new medium-term financing in 1983. [REDACTED]

So far the public has accepted hardships. Party leaders, however, are uneasy that bleak economic prospects may lead to unrest. [REDACTED]

#### Political Differences and Ethnic Pressures

The party, now over 2.1 million strong, is a unified national party only in theory. Its eight regional components often force Belgrade to compromise on policy initiatives. In April, for example, the Slovene party rejected draft legislation that would have allowed the National Bank to control all hard currency held in regional banks. [REDACTED]

Party conservatives decry this "confederalization" and insist on restoring more power to Belgrade. Some Yugoslav economists also see recentralization as necessary to carry out economic reforms. [REDACTED]

Pressure for more party democracy seems likely at the congress. A series of proposed changes in the party statute--including a provision for party referenda on controversial issues--would, if approved, help restrain the federal party's ability to impose unpopular measures. [REDACTED]

The congress also will have to take account of increasing ethnic tensions. There may be embarrassing demonstrations by Albanian nationalists in Kosovo Province during the meeting. [REDACTED]

--continued

~~Top Secret~~

Top Secret

There were violent flareups in Kosovo this spring, despite the presence of special security forces. The leadership has been unable to devise corrective measures in the province. [REDACTED]

The congress may address the threat of spreading nationalism. Many Yugoslavs are concerned that the Serbs, angered by the demands of the people in Kosovo for republic status and fearful of losing authority over their provinces, are attempting to regain a dominant position in the federation. [REDACTED]

#### Foreign Policy

The congress will reaffirm nonalignment, the cornerstone of Yugoslavia's foreign policy. Both the US and the USSR are likely to be criticized for the deterioration of detente and for slow progress in disarmament. [REDACTED]

The meeting, however, may lead to a new chill in relations with the USSR. [REDACTED] the Soviets are concerned over the possibility of anti-Soviet language appearing in the final resolution. [REDACTED]

This could explain Moscow's decision to send candidate Politburo member Kuznetsov to the congress. Previous delegations were headed by full Politburo members. [REDACTED]

#### More Frustration Ahead

Earlier in the year many Yugoslavs hoped the party leadership would bring a new sense of purpose to political and economic decisionmaking. More recently, however, editorials warned the public not to expect too much. [REDACTED]

In the meantime, the strong new government installed in May has begun to tackle the economic problems. Without a consensus in the party, however, the government will not be able to make much headway. Its efforts may only heighten tensions among conservatives in the party, who may be concerned that the party's leading role is being usurped. [REDACTED]

Top Secret